ALBERTA

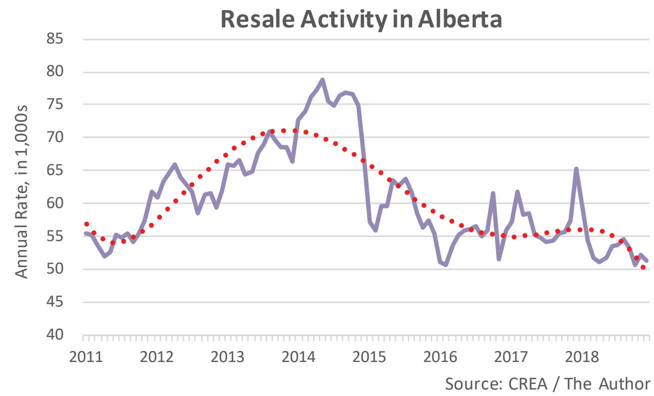
MORTGAGE PROFESSIONALS CANADA

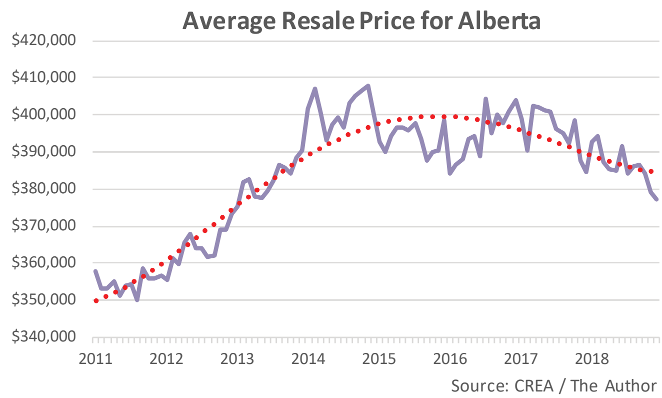
Resale Market

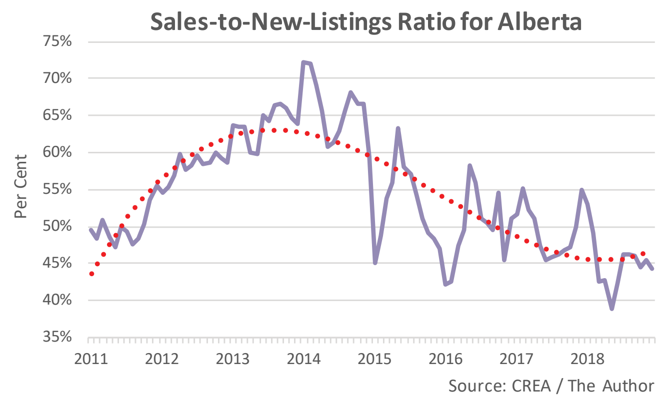
Resale activity had appeared to be roughly stable during 2015 to 2017 (albeit with large short-term variations). For 2018, there was a further drop, and total sales (53,190) were 7.2% lower than in 2017. On top of the challenging economic situation, the mortgage stress tests and higher interest rates are discouraging home-buying.

Data from CREA on the average price shows erosion during the past two years. The average price for the province fell by 2.6% in 2018, and is down by 3.6% compared to 2014.

While sales have slowed, flows of new listings into the resale market have expanded. As the result, the sales-to-new-listings ratio ("SNLR") averaged 45% in 2018, which is far below the threshold (56%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Housing prices tend to be "sticky downwards", as potential sellers resist reducing their expectations, and this has – so far – limited the amounts of price reductions. On current trends, it should be expected that prices will continue to erode. An important factor in this situation is the intangible of consumer confidence and expectations. Expectations can become self-fulfilling.



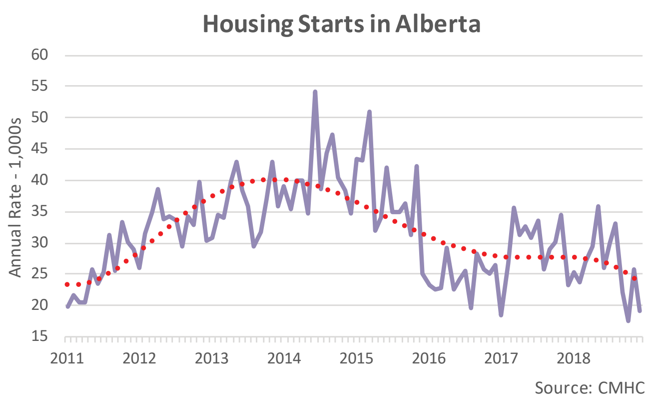


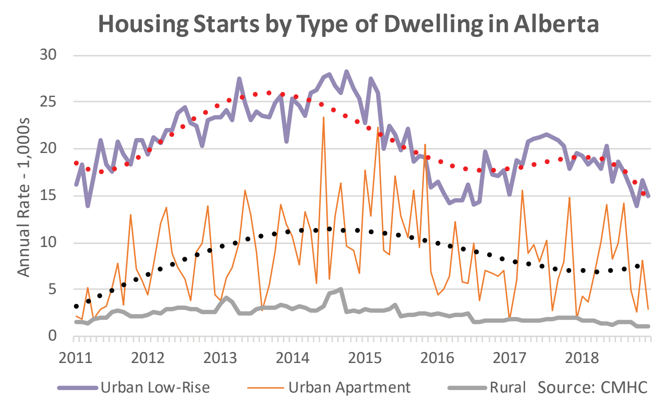


Housing Starts

Alberta's housing starts had been flat (at a low level). The data for the last four months of 2018 hint at a further downturn. The trend is now down by about 40% compared to 2013 to 2014. Housing starts follow behind trends in the resale market (since starts largely result from pre-construction sales that happened earlier). We can expect to see further reductions for starts, in response to on-going changes in conditions. For low-rise homes (singles, semi-detached, and town homes) in urban areas, the lag time is relatively short, and the trend has fallen very sharply.

For apartments, the lag time is longer. In Alberta, about two-thirds of apartment starts are for condominiums rather than rentals, and these are expected to follow behind trends in the resale market. Apartment starts have been roughly flat recently, but are likely to fall during 2019. Overall, the trend for total starts is likely to fall further during 2019.





Employment Trends

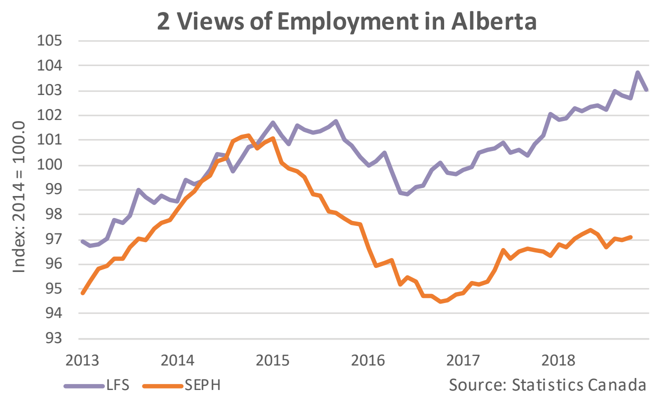
Statistics Canada's reports on the employment situation have shown continuing growth during the past 2.5 years, although at a modest pace (total growth of about 4% during that period). Looking at trends, the data indicates that employment has increased by 0.9% compared to a year ago (according to the Labour Force Survey, or "LFS"). This is slower than the growth rate for the population of adults (estimated at 1.5%). This means that the percentage of adults who have jobs is falling. The best news in this data is that the level of employment in Alberta is now about 1-2% higher than in 2014. The data from the LFS sends mixed messages, but should, if it is correct, encourage us to expect improvements in the housing market from current weakened conditions.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a different story. While it also shows recent improvement, it suggests that the growth rate over the past year has been just 0.5% (but, for the year up to October) and it indicates that employment is still 4% lower than in 2014. This data is discouraging about the housing market outlook.

Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

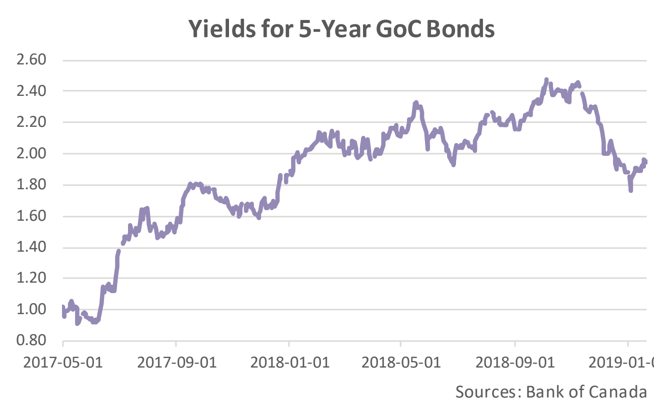
I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market"). A further issue for Alberta is that this data hints that the rate of population growth in Alberta has been weaker than estimated.



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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